16 March 2017 | £3.95
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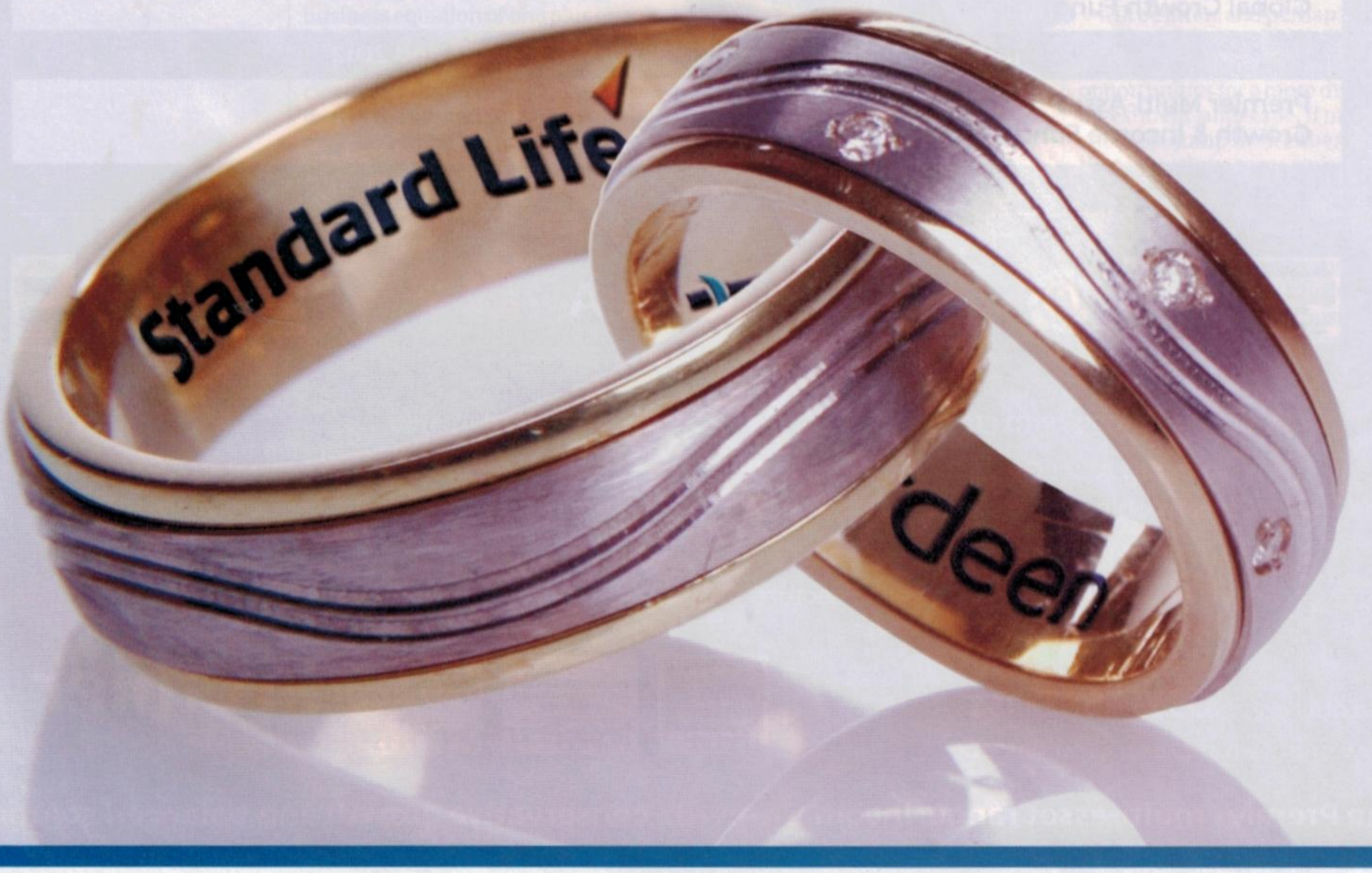
A marriage made in heaven?

Inside the Standard Life/Aberdeen mega-merger



Careers brief 35

Advisers
How will the Budget affect advisers? 8

Simon Collins
Challenges remain on suitability 30

Advisers
FCA: 84% of advisers are independent 10

VALENTINA ROMEO

The £11bn mega-merger between Standard Life and Aberdeen Asset Management has prompted a raft of questions on what the investment proposition under the combined business could look like.

Earlier this month the two companies agreed a deal which is set to create a global asset management powerhouse controlling around £660bn assets.

The combined group would rank 22nd among the world's largest fund groups by assets, according to a list compiled by Willis Towers Watson.

It will be the third-largest asset manager in the UK after L&G Investment Management and HSBC, both large passive investors.

Money Marketing understands Aberdeen and Standard Life are limiting their merger talks at this stage to board level and have yet to focus on investment propositions and products.

While Standard Life is set to continue its transformation from life company into an asset gatherer, it is argued the merged entity may lack a unique selling point. Some suggest that despite its size the enlarged company is still far away from competing with giant global fund houses such as BlackRock or Vanguard.

With continued regulatory pressure and the rise of passives, how will the combined group seek to differentiate its offering?

'Monitoring the situation'

On the day the merger was announced, after seeing initial drops in the share prices of both Standard Life and Aberdeen, normal trading resumed.

What has caused disquiet in the market is less the news of the deal, and more the uncertainty about which managers will remain. Within days of the merger being made public, high profile Standard Life Investments manager and head of equities David Cumming announced he was leaving the firm to "pursue other interests". The firm has denied the move is linked to the merger.

Morningstar says its "monitoring the situation" at Standard Life in case other managers decide to opt for the exit in the wake of the deal. Morningstar says Cumming's departure will not immediately affect the ratings it assigns to six SLI funds.

But it adds: "Should a pattern of further departures develop, our view could change."

Hargreaves Lansdown has three SLI funds and two Aberdeen funds on its Wealth 150 buy list, and says i is keeping "a close eye" on the managers as the deal unfolds.

Commentators argue the merger, which some say is more akin to a takeover by Standard Life, is a clear example of how the UK asset management industry is rapidly transforming.

Gbi2 managing director Graham Bentley says Standard Life is becoming more of "an asset gatherer" and will cease being an insurer.

He says: "Standard Life is a company which could cease to exist and become an asset gatherer. But for the moment they're not thinking about their fund range, that will happen later.

"You can bet all the decisions will come to surprise on the marketing and sales side, which at the moment I suppose are not getting involved in the talks."

Fund focus

Experts agree the two groups roughly polarise their offerings into two areas of expertise; Asia and emerging markets for Aberdeen, and the UK for SLI.

Some business units will inevitably merge or disappear altogether. Experts argue the process of setting up new funds and ranges might take over a year.

Across the IA sectors, the total number of funds held by the two groups is 168, with Aberdeen and SLI managing 78 and 90 funds respectively.

AJ Bell head of fund selection Ryan Hughes says the fund range could merge into around 100 funds, with each having "a natural partner".

He says: "There'll be a huge amount of fund mergers to come. Assuming they want to merge investment teams together, then it's the case of going through each asset class and each region to see which team approach wins out."

Bentley argues the Asian expertise through Aberdeen's Hugh Young would be the basis of the combined unit, while the bigger crossover will be in their multi-manager ranges where most of the cost savings could be. He believes Aberdeen's multi-managers may be more at risk as a result.

The merger is expected to result in cost savings of £200m a year.

Bentley says: "Clearly SLI's £10bn Global Absolute Return Strategy is the most successful in terms of the assets gathered and you're not likely to see Aberdeen running that. Aberdeen has a multi-asset facility, which is nowhere near the size of the assets controlled under SLI's MyFolio, which is a much more varied offering. A lot of the multi-asset offering within Aberdeen is actually utilising strategies that are already used by SLI." ▶

IN NUMBERS

168

Funds combined within the IA sectors:

78 funds

managed by Aberdeen

90 funds

managed by SLI

11

Fund teams at Aberdeen

65

Fund managers at SLI

Asset classes:

Aberdeen funds: 44 Equity, 19 Fixed Interest, 11 Mixed assets, 4 Property

SLI: 34 Equity, 34 Mixed funds, 17 Fixed interest, 3 Property

Ongoing charge Fee average:

1.2% Aberdeen

1.76% SLI

SOURCE: FE

For the UK, firms say Standard Life will lead with its UK team given its better performance track record, with star fund manager Harry Nimmo retaining the helm of small companies funds.

Hughes says: "On the fixed income side, Aberdeen is less strong than Standard Life. One area up for grabs is European equities as both have a compelling offering and there's no clear winner. Another good match is Aberdeen's property share fund and Standard Life with its physical commercial property fund."

In terms of investment philosophy, Architas investment director Adrian Lowcock says the two firms' differences are not as big as they might seem.

He says: "The firms are both very high conviction and are not benchmark-focused. They are truly active managers with high active shares. They do view fundamentals behind firms' asset prices and that's quite a key feature in their philosophy."

Lowcock argues the only difference is around their stockpicking process. He says: "Aberdeen looks for a disciplined management style as well as cashflows and is more cautious as a manager. Standard Life looks at changes in the companies and how these might restructure, so it has more of a value play. But they could work in a complementary way, especially if those investment philosophies are working."

Fund selectors say despite the fact both firms are major active managers, they do not rule out the new firm offering passive funds post-merger.

Seven Investment Management director and co-founder Justin Urquhart Stewart says: "Scotland needs a global investment house with a much slimmed-down range of funds. The new business can get new passive funds, for example, replicating the international funds they already have.

"They can be more selective also with smart beta, making funds more tailored using their expertise in those markets they are already in."

Global ambition

Scottish Financial Enterprise, which represents financial services firms in Scotland, says the merger will provide clients with greater choice and diversity for their savings and investments.

Chief executive Graeme Jones says: "This deal creates an extremely strong global presence with a wealth of experience and chimes with the strong performance of the asset management sector in Scotland."

But Jonathan Davis Wealth Management managing director Jonathan Davis argues the two companies lack the ability to be a truly global asset manager powerhouse even after the merger.

He says: "The reason behind the move is because the Vanguards of the world are massively driving down costs and you'll see more mergers like this. Aberdeen and Standard Life don't offer anything particularly unique or have a unique selling point. The only thing they are trying to do is get bigger."

But Bentley says the new firm has a big chance to demonstrate good practice amid the FCA's continued scrutiny into fund performance and costs.

He says: "The merger is a huge opportunity to market funds cheaper, particularly if the firms think they'll have increased volumes as a result of the deal. The FCA will look more into funds that are highly priced and not delivering.

"There is an opportunity for the new firm to actually revitalise their ranges for the new world and say they have the expertise to deliver alpha."

Given the possibility of outflows while the firms agree on the final structure post-merger, wealth managers and advice firms are being told to remain cautious or temporarily allocate capital elsewhere.

Equilibrium Asset Management partner and investment manager Mike Deverell says he will not sell fund holdings from the two groups unless it becomes clear they are going to merge.

He says: "For example, two UK equity funds run by good managers with different mandates we would continue to hold.

"However, when SLI bought Ignis Asset Management we held both their UK property funds. When it became obvious the funds would merge we decided to sell one of them. Other than those instances, the merger will not affect day-to-day business for investors in their funds."

7IM holds "small amounts "of Aberdeen/SLI funds but is considering replacing them with passive equivalents.

Urquhart Stewart says: "We use some of their funds but only some international ones like Aberdeen's. They've been very expensive but as long as they perform we'll keep them. We are constantly on watch.

"In any case, we are thinking about replacing them with passive actively allocated funds for emerging markets such as with BlackRock trackers as active managed funds are not worth their while."

But BMO Asset Management fund manager Gary Potter warns investors that hold funds in the groups should not panic. He says: "We have used some of their funds in the past but we prefer smaller boutiques. You can't make a decision on what you don't have yet. These are funds, not individual stocks, they are diversified and with good managers."

ADVISER VIEWS

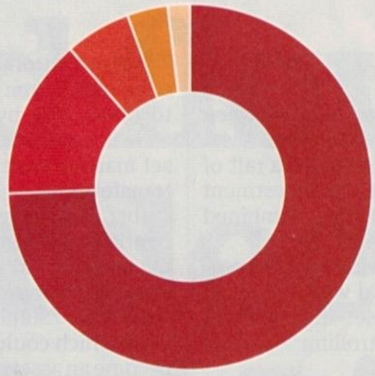
Justin Urquhart Stewart
Director and co-founder Seven Investment Managment

In the past, asset managers were able to hide outperformance but now costs stick out more starkly, with more use of passives. Now you have two big businesses and we will see how they evolve in the new world. There is an awful lot of cost associated with mergers and it will take a long time. The two firms are going to evolve in this new passive world, and, while they can afford to do it, it is going to be difficult to achieve. They need to sharpen up their funds and costs or they will slowly lose business and see outflows.

Lee Robertson
Chief executive Investment Quorum

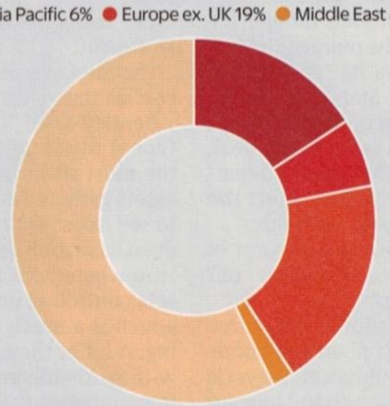
In the new group I would like to see less funds and Aberdeen/Standard Life getting rid of the non-performing ones. As in any merger, such as Janus/Henderson, some fund groups can get big and flabby. Advisers should ask: does it become a cultural clash? Which are the managers I like? As the firms are doing now, they will put teams together and make it work. While I am not sure of the co-CEOs move, I really respect Martin Gilbert as well as Keith Skeoch in how they run businesses.

STANDARD LIFE INVESTMENTS



ASSETS BY REGION. TOTAL AUM AS IF DECEMBER 2016: STANDARD LIFE INVESTMENTS £269BN. AS OF 30/06/2016.
SOURCE: STANDARD LIFE INVESTMENTS

ABERDEEN ASSET MANAGEMENT



ASSETS BY REGION. TOTAL AUM AS OF DECEMBER 2016: ABERDEEN £312BN. AS OF 30/09/2016.
SOURCE: ABERDEEN ASSET MANAGEMENT